

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07
L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15
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FM AMCONSUL TORONTO
TO SECSTATE WASHDC 5292
INFO AMEMBASSY OTTAWA

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E.O. 11652: /A
TAGS: EFIN, PGOV, SOPH, CA
SUBJECT: ONTARIO TREASURER WARNS PROVINCIAL BUDGET WILL NOT CUT INCOM
E
TAXES; PRAISES FEDERAL BUDGET INCOME TAX POSITION

REF: TORONTO 782

1# SPEAKING TO APRIL 12 ANNUAL CONVENTION OF METRO TRONTO
CONVENTIAL AND TOURISM BUREAU,ONTARI TREASURER DARCY MCKEOUGH
TOOK UNUSUAL STEP OF DISCUSSING 1977 PROVINCIAL BUDGET A WEEK BEFORE
HE WILL PRESENT IT TO ONTARIO GENERAL LEGISLATIVE ASSEMBLY.
MCKEOUGH CRITICIZED PROVINCIAL OPPOSITIO NDP LEADER STPHEN LEWIS
FOR HIS CALL ON OTTAWA TO CUT INCOME TAXES IN RECENT FEDERAL BUDGET
AND PRAISED FEDERAL FINANCE MINISTER DONALD MACDONALD FOR RESISTING,
SAYING THAT "OUR PRESENT DIFFICULTIES ARE NOT CAUSED BY A DECLINE IN
PURCHASING POWER". MCKEOUGH CONTINUED THAT OTTAWA WAS "WISE" NOT TO
CUT PERSONAL INCOME TAXES FURTHER "AND FOR MY PART, I AM NOT GOING TO
INTRODUCE A BUDGET NEXT WEEK WHICH WOULD ONLY TINKER WITH THIS BASIC
ECONOMIC SETTING".

2. MCKEOUGH SAID THE MINORITY PROGRESSIVE CONSERVIATIVE PROVINCIAL
GOVERNMENT INTENDS TO RESTRUCTURE THE PROVINCIAL ECONOMY TO
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FACE THE COMPETATIVE CLIMATE OF THE 1980'S AND SUGGESTED THAT ONTARIO
"RATIONALIZE AND CONCERNTRATE AROUND THE BEST INDUSTRIS THAT CAN
MEET WORLD COMPETITIVE STANDARDS." HE ACKNOWLEDGED THAT THE 3.2
PERCENT INCREASE IN EMPLOYMENT FORECAST IN HIS BUDGET LASTYEAR
ACTUALLY SHOWED UP AS 2.1 PERCENT AND CONTINUED THAT NEXT WEEK'S
BUDGET WILL ADDRESS THE NEED TO KNOW MORE ABOUT LABOR MARKETS
"AT CONSIDERABLE LENGTH."

3. THE "TORONTO STAR" APRIL 13 LEAD EDITORIAL "ME-TOO MCKEOUGH
FOLLOWS BIG MAC" QUESTIONED THE TREASURER'S UNWILLINGNESS TO
CONSIDER STIMULATIVE MEASURES NOW WHEN HE WAS SO WILLING TO DO SO
WHEN INFLATION WAS SO MUCH WORSE IN 1975. NOTING MCKEOUGH'S
STATEMENT THAT HIS MAIN OBJECTIVE IS "TO BE SUPPORTIVE OF OVERALL
FEDERAL LEADERSHIP", THE STAR WROTE THAT "THERE IS NOTHING NEW
ABOUT HIS GRAND STRATEGY. IT'S THE SAME OLD REMEDY OF FIGHTING IN-
FLATION ON THE BACKS OF THE UNEMPLOYED".

4. COMMENT: MOST OBSERVERS HERE ARE LOOKING TO NEXT WEEK'S PROVINCIAL
BUDGET TO INDICATE WHETHER THERE WILL BE ELECTIONS THIS SUMMER. TAX
PROPOSALS TO FOSTER BUSINESS INVESTMENT WILL FACE NDP OPPOSITION
BUT IT APPEARS FAIRLY CERTAIN THAT THE LIBERALS, THE THIRD PARTY
AND THE ONE LEAST PREPARED FOR AN ELECTION, WILL GO TO ALMOST
ANY LENGTH TO AVOID BRINGING THE GOVERNMENT DOWN AND THEY MUST JOIN
THE NDP TO DO SO. PREMIER DAVIS SEEMS TO HAVE A FIXATION
ABOUT THE TORIES NOT BEING BLAMED FOR NEW ELECTIONS. WITH ALL
THIS IN MIND, MCKEOUGH WILL HAVE TO BE PARTICULARLY INVENTIVE
TO FIND AN ISSUE THAT WILL BE ATTRACTIVE TO VOTERS, INFLAME BOTH
THE NDP AND THE LIBERALS BUT STILL NOT BE INFLATIONARY. HOWEVER,
IT MAY ALSO BE THAT, BOYED BY DRAMATIC PERSONAL AND TORY
POPULARITY INCREASES IN RECENT POLLS, DAVIS WILL BITE THE BULLET
AND ACCEPT THE BLAME FOR BRINGING DOWN THE GOVERNMENT (E.G. ON THE
ISSUE OF FREEDOM OF INFORMATION IF HE MAKES IT AN ISSUE OF CONFIDENCE
).

EVEN IF THE BUDGET IS LACKING IN CONFRONTATION, THE INTRODUCTION
OF TEMPORARY MEASURES, A DEVICE USED IN 1975 AND RECENTLY DESCRIBED
BY MCKEOUGH AS SUCCESSFUL (E.G. TEMPORARY REDUCTION OF SALES TAX FROM
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7 TO 5 PERCENT WAS A 1975 MEASURE BUT WOULD PROBABLY NOT BE
CONSIDERED
IN 1977 IN VIEW NEGATION PURCHASING POWER ARGUMENT REFLECTED PGH 1.),
WOULD INDICATE THE TORIES' PROBABLE INTENTIONS TO GO TO THE VOTERS
THIS SUMMER.
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